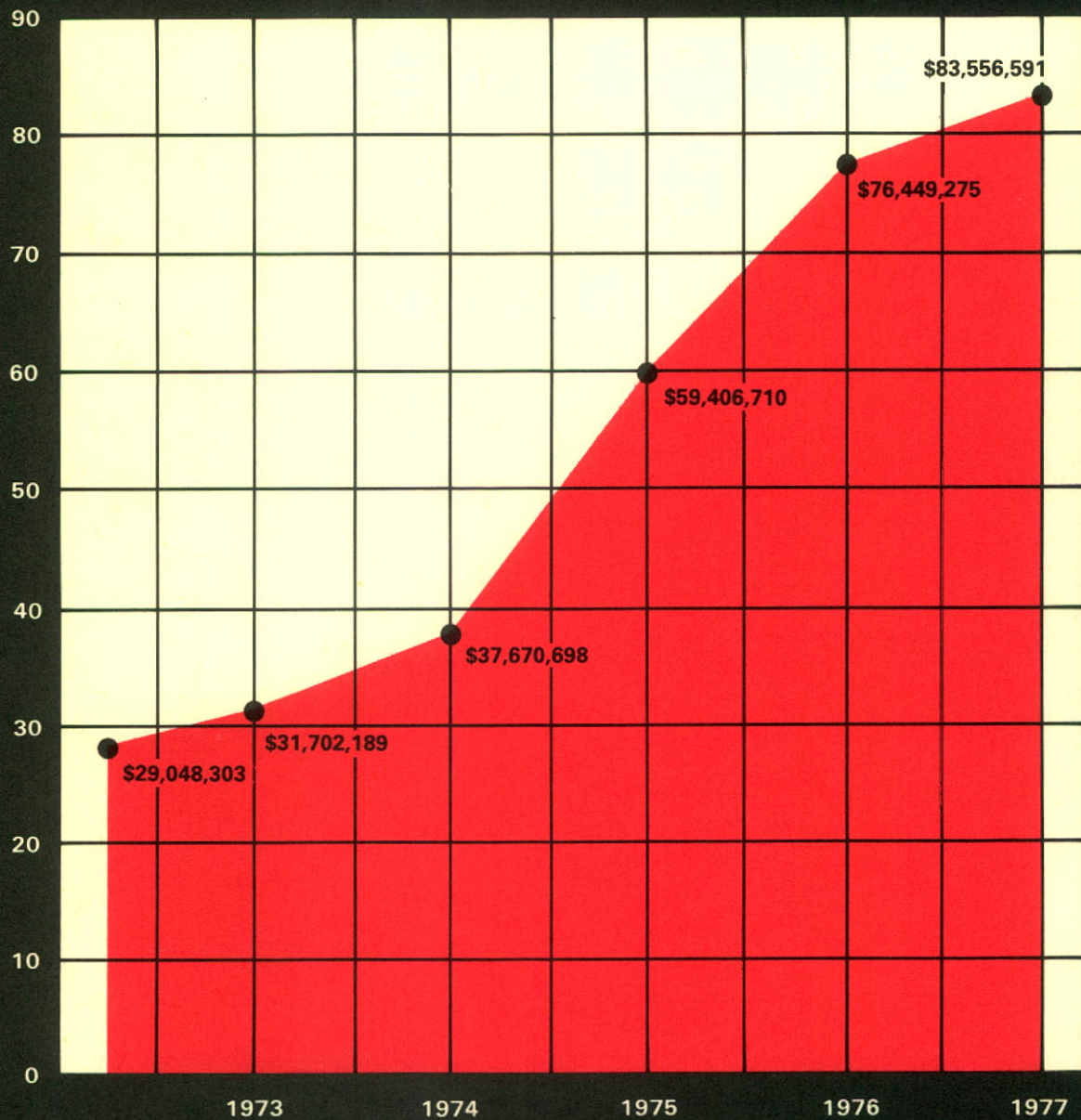


ANNUAL REPORT

APRIL 1, 1976, TO MARCH 31, 1977



Alberta
OPPORTUNITY COMPANY

**THE ALBERTA OPPORTUNITY COMPANY
A CROWN CORPORATION, RESPONSIBLE TO
THE LEGISLATURE OF ALBERTA, THROUGH
THE MINISTER OF BUSINESS DEVELOPMENT & TOURISM
THE HON. ROBERT DOWLING**

BOARD OF DIRECTORS

R. W. Chapman, Edmonton, Chairman
E. A. Clarke, Ponoka, Managing Director
G. Buchanan, High Prairie
Mrs. B. Fowler, Camrose
C. T. Heckbert, Vermilion
R. J. Jensen, Edson
N. A. Lawrence, P.Eng., Edmonton
D. E. Lewis, Q.C., Calgary
L. C. Ordze, Camrose
N. F. W. Picard, Edmonton
J. Wilders, Ponoka

"There is hereby established a fund under the name of the Alberta Opportunity Fund the total amount of which shall not exceed \$100,000,000, and which shall be held and administered by the Company with the object of promoting the development of resources and the general growth and diversification of the economy of Alberta."

(The Alberta Opportunity Fund Act, June 2, 1972, amended November 4, 1974.)

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MANAGING DIRECTOR'S REPORT

At March 31, 1977 the Alberta Opportunity Company had financing commitments totalling \$83,556,591 outstanding to 746 Alberta businesses, located in 218 communities of our Province.

These levels represent a 30.6% increase over the number of commitments outstanding at the previous year-end (571), and a 9.3% increase in their dollar value (\$76,449,275 at March 31, 1976).

The weighted average term of outstanding loans is 9.2 years and their weighted average interest rate is 9.4%.

The most significant change during the year was the reduction in average loan size to \$65,418 from \$132,810 in the preceding year. This parallels a similar change in the size of applications received. With the median loan (i.e. size made with greatest frequency) remaining relatively unchanged at \$41,429 compared to \$42,045 last year, it will be seen from subsequent tabulations that the change in average loan size primarily results from a reduction in the number of larger loans. We found that conventional lending institutions were much readier to make these larger loans last year than they had been previously. Had it not been for the substantial increase in the number of new loans made, our total outstanding commitments might have recorded a small decline.

Another significant change last year was the rise in proportion of our funds supplied by repayment to us of loans we had made earlier, rather than from new borrowings by A.O.C. from the Provincial Treasurer. These internally generated funds represented 61.4% of our cash requirements last year, compared to 19.8% in the preceding year. This change reflects the rapid rise in annual lending volume of two and three years ago, with repayment of these loans now showing a corresponding increase in funds inflow, and points to the future maturity of The Alberta Opportunity Fund when new loans can be financed almost totally from principal and interest payments on previous loans.

GEOGRAPHIC DISTRIBUTION OF FINANCING AUTHORIZATIONS

Year Ended	Northern Alberta	Edmonton	Central Alberta	Calgary	Southern Alberta
March 31, 1974	26.7%	10.5%	21.7%	17.3%	23.8%
March 31, 1975	30.8%	18.2%	19.6%	4.8%	26.6%
March 31, 1976	18.9%	11.5%	21.9%	32.9%	14.8%
March 31, 1977	29.6%	17.4%	23.5%	6.9%	22.6%
4 YEAR TOTAL	25.9%	14.8%	21.5%	16.5%	21.3%

The proportion of financing going to non-metropolitan centres increased last year to 75.7%, compared to 68.7% for the four year average. Here again we found conventional lending institutions to be more aggressive and competitive in pursuing business in Calgary and Edmonton, with a corresponding reduction in the need for A.O.C. financing assistance. The new and small businesses in the smaller communities, however, continue to experience some difficulty in obtaining conventional loans, and it is this gap which A.O.C. continues to fill wherever possible.

SIZE DISTRIBUTION OF FINANCING AUTHORIZATIONS

	Proportion Year End March 31, 1976	Proportion Year End March 31, 1977
\$ 0 - 50,000	58%	59%
50,001 - 100,000	18%	24%
100,001 - 200,000	10%	10%
200,001 - 500,000	9%	7%
500,001 +	5%	0%

As commented earlier, it was the number of larger loans which declined in the past year. Loans above \$100,000 decreased to 17% of the total number of authorizations, compared to 24% in the preceding year, with no authorizations exceeding \$500,000.

As will be seen from the following four year tabulation, the relatively small number of large loans have a disproportionate effect on calculation of average loan amounts, and it is therefore the median loan amounts which more accurately portray our activity.

NET FINANCING AUTHORIZATIONS

	Y/E MAR 31 1974	Y/E MAR 31 1975	Y/E MAR 31 1976	Y/E MAR 31 1977
Number	118	191	211	268
Yr. to yr. % increase	N/A	61.9%	10.5%	27.0%
Dollar value	\$9,388,268	\$25,587,948	\$28,022,864	\$17,531,954
Yr. to yr. % increase	N/A	172.6%	9.5%	(37.4%)
Average amount	\$79,562	\$133,968	\$132,810	\$65,418
Median amount	\$42,857	\$ 44,167	\$ 42,045	\$41,429

APPLICATIONS OF A.O.C. FINANCING

Projects		Financing	
Land	\$ 2,086,068 - 8.4%	A.O.C. Term Loans	\$16,231,704 - 65.6%
Buildings	9,215,740 - 37.3%	A.O.C. Loan Guarantees	1,300,250 - 5.3%
Machinery & Equip.	6,387,058 - 25.8%	New Equity Investment	4,778,305 - 19.3%
Working Capital	5,589,333 - 22.6%	Other Lenders	1,671,985 - 6.8%
Miscellaneous	1,453,873 - 5.9%	Working Capital	391,728 - 1.6%
		Miscellaneous	358,100 - 1.4%
	<u>\$24,732,072</u> 100.0%		<u>\$24,732,072</u> 100.0%

Land and buildings absorbed a somewhat higher proportion in the past year, 45.7%, compared with 35.8% in the preceding year, which may reflect inflationary pressures. The proportion of new equity investment by our borrowers also rose, from 11.2% to 19.3%, enabling a reduction in the A.O.C. share of total requirements from 74.1% to 70.9%.

DOUBTFUL ACCOUNTS	Y/E MAR 31 1976	Y/E MAR 31 1977
Number of accounts with specific provision for loss	33	56
% to total disbursed	7.1%	9.0%
Cumulative total of specific provision for loss	\$1,711,348	\$3,330,207
% to total disbursed	3.0%	5.0%
Total outstanding balance on accounts with provision for loss	4,085,967	7,844,879

Our experience has indicated that it takes on average about two years after a loan has been authorized for either a high degree of success or total failure to result. The great majority of our borrowers do show a modest profit in the first year after start-up or after completing their expansion programme, and the majority also go on to earn an average rate of profit in their second and following years. Only a very small number record an immediate high level of success or failure. The approximate doubling of problem accounts and related reserve provision in the past fiscal year, then, does not reflect any sudden turn for the worse in AOC's risk experience, but simply follows, in about the same proportion, the upsurge in lending activity which took place in 1974/1975 and 1975/76.

Another point worth noting is that many "doubtful" accounts do in fact recover from their difficulties and go on to become successful ventures. In the past year, prior years' provisions for loss in ten accounts totalling \$620,548 were reversed as no longer necessary.

Our monitoring procedures do keep us fairly well aware of our borrowers' activities and the problems they are facing but some businesses, like humans, that appear to be healthy may suddenly die due to an accident or serious disease. In addition to making provision for possible loss on specific businesses known to be in difficulty, we therefore also make a general provision for loss on other accounts which may fail quite unexpectedly. Currently this reserve stands at \$1,950,966. The specific and general reserve in total represent 8% of total outstandings, compared to a "norm" for conventional lending institutions of ½% to 1%.

WRITE-OFFS	Y/E MAR 31 1976	Y/E MAR 31 1977
Number of accounts	9	18
Amount written off	\$1,300,267	\$288,621

Just as the need to establish a provision for possible loss may lag two years from the date of authorization, so also is there a time lag in determining the actual loss on liquidation and hence the amount to be written off from these reserves. Some assets may be sold quickly, but others which are more specialized may take much longer to find a willing buyer at a fair price. Collection from guarantors may also be protracted. The relatively small amount recorded in this past fiscal year should therefore be expected to increase substantially in future. On our limited experience to date, actual amounts written off have totalled slightly less than the provisions for loss which had been made earlier.



OFFICE OF THE PROVINCIAL AUDITOR

AUDITOR'S REPORT

**To the Board of Directors
of the Alberta Opportunity Company**

I have examined the balance sheet of the Alberta Opportunity Company as at March 31, 1977 and the statement of income and expenses for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Company as at March 31, 1977 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

C.A.
Provincial Auditor

Edmonton, Alberta
April 29, 1977

ALBERTA OPPORTUNITY COMPANY
BALANCE SHEET
AS AT MARCH 31, 1977

ASSETS

	<u>1977</u>	<u>1976</u>
Cash	\$ 266	\$ 273
Accounts receivable	6,759	2,871
Prepaid expense	<u>7,203</u>	<u>5,883</u>
	<u>14,228</u>	<u>9,027</u>
Loans and accrued interest receivable	66,078,520	57,035,847
Less: Allowance for doubtful accounts (Note 3)	<u>5,303,975</u>	<u>3,225,116</u>
	<u>60,774,545</u>	<u>53,810,731</u>
Industrial incentive loans receivable (Note 4)	1,739,635	1,745,149
Less: Allowance for possible forgiveness	<u>1,739,635</u>	<u>1,745,149</u>
	<u>—</u>	<u>—</u>
Equipment (at cost less accumulated depreciation of \$16,162; \$11,199 - 1976)	29,253	25,224
Leasehold improvements (at cost less amortization of \$14,154) (Note 5)	463,554	457,715
Miscellaneous assets (Note 6)	<u>1</u>	<u>2</u>
	<u>492,808</u>	<u>482,941</u>
Trust assets (Note 9)	<u>86,033</u>	<u>80,514</u>
	<u><u>\$61,367,614</u></u>	<u><u>\$54,383,213</u></u>

The accompanying notes are part
of these financial statements.

STATEMENT A

LIABILITIES

	<u>1977</u>	<u>1976</u>
Bank overdraft	\$ 373,051	\$ 166,491
Accounts payable	371,480	262,117
Holdbacks and accrued interest payable	<u>21,730</u>	<u>54,792</u>
	<u>766,261</u>	<u>483,400</u>
Advances from Province of Alberta		
Balance, beginning of year	53,569,000	33,041,146
Add: Advances received	14,803,498	25,590,000
Less: Advances repaid	<u>(9,083,498)</u>	<u>(5,062,146)</u>
Balance, end of year	<u>59,289,000</u>	<u>53,569,000</u>
Retained earnings:		
Balance, beginning of year	250,299	250,298
Add: Net profit Statement B	<u>976,021</u>	<u>1</u>
Balance, end of year	<u>1,226,320</u>	<u>250,299</u>
Trust liabilities (Note 9)	<u>86,033</u>	<u>80,514</u>
	<u>\$61,367,614</u>	<u>\$54,383,213</u>

ALBERTA OPPORTUNITY COMPANY
SCHEDULES OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 1977

SCHEDULE 1

	<u>1977</u>	<u>1976</u>
Staff:		
Salaries and wages	\$ 1,048,447	\$ 884,067
Pension plans (Note 10)	92,068	44,885
Unemployment insurance	12,268	8,628
Medical and group insurance	7,812	6,592
Workers' Compensation Board	2,176	1,350
Parking	265	364
Educational assistance	950	1,167
Recruitment expense	666	10,336
Relocation expense	19,128	27,733
	<u>\$ 1,183,780</u>	<u>\$ 985,122</u>

SCHEDULE 2

Other Manpower:		
Board of Directors' fees	\$ 28,180	\$ 17,825
Professional and other fees:		
Legal	162,458	189,497
Consultants	44,648	69,260
Bonded agents	120	176
Appraisers		1,200
Credit reporting agencies	6,847	4,343
	<u>\$ 242,253</u>	<u>\$ 282,301</u>

SCHEDULE 3

Communications:		
Telephone and telegraph	\$ 27,599	\$ 24,451
Mail and messenger service	4,183	3,570
Travel	81,906	60,174
Advertising	40,535	17,370
	<u>\$ 154,223</u>	<u>\$ 105,565</u>

SCHEDULE 4

Other Operating Expenses:		
Data processing	\$ 4,500	\$ 29,290
Office supplies and services	22,239	9,710
Vehicle and equipment	13,266	6,205
Fees and subscriptions	6,753	4,856
Depreciation	5,510	1,565
Insurance	4,701	1,008
Miscellaneous	2,855	1,008
	<u>\$ 59,824</u>	<u>\$ 52,634</u>

ALBERTA OPPORTUNITY COMPANY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1977

Note 1. Authority

The Alberta Opportunity Company operates under the authority of The Alberta Opportunity Fund Act, Chapter 11, Statutes of Alberta 1972.

Note 2. Accounting Policies

Allowance for doubtful accounts:

The Company has adopted the policy of providing for loss on specific accounts known to be in difficulty at March 31, as well as providing for loss on other accounts which can reasonably be expected to encounter problems.

Fixed Assets:

Up to March 31, 1977 office accommodations, related land and some furnishings were owned by the Province of Alberta and provided to the Company at no cost. Effective April 1, 1977 the Company has leased new premises from the Province and such costs will be included in future financial statements.

Depreciation:

Furnishings and equipment owned by the Company are depreciated on a diminishing balance basis at 20% per annum.

Note 3. Allowance for Doubtful Accounts

An analysis of the account is as follows:

	<u>1977</u>	<u>1976</u>
Balance, beginning of year	\$ 3,225,116	\$ 1,536,404
Accounts written off	(288,621)	(1,300,267)
Specific provision	1,924,769	1,370,954
General provision	437,197	1,513,769
Transfer from industrial incentive loans (Note 4)	<u>5,514</u>	<u>104,256</u>
Balance, end of year	<u>\$ 5,303,975</u>	<u>\$ 3,225,116</u>

Note 4. Industrial Incentive Loans

These loans were made under authority of The Industrial Development Incentives Act which provide that, with the approval of the Lieutenant Governor in Council, repayment of the loans may be forgiven in whole or in part, providing that no loan may be wholly forgiven before the expiration of five years from the date money was first advanced under the loan. During this five year period, no interest is charged on a loan and no repayment of principal is required providing a borrower continues in operation and meets certain other conditions.

In the year ended March 31, 1977 one of these borrowers ceased operations, thus breaching one of the conditions required for forgiveness. This loan of \$5,514, became collectible, and was transferred to Loans Receivable.

Note 5. Leasehold Improvements

The Company constructed a 21,360 sq. ft. commercial aircraft hangar at Slave Lake, Alberta for the subsequent lease or sale to a client. This client subsequently declared bankruptcy and rental operations of the premises will be conducted until arrangements for its sale are complete. For the eight months ended March 31, 1977 total income from the facility amounted to \$3,250 and during the same period \$30,007 of expenses were incurred resulting in an operating loss for the period of \$26,757.

ALBERTA OPPORTUNITY COMPANY
STATEMENT OF INCOME AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 1977

STATEMENT B

	<u>1977</u>	<u>1976</u>
Income:		
Interest revenue	\$ 5,566,130	\$ 4,340,956
Guarantee fees	23,996	18,251
Miscellaneous	<u>11,731</u>	<u>5,913</u>
	<u>\$ 5,601,857</u>	<u>\$ 4,365,120</u>
Expenses:		
Interest expense (Note 11)	597,033	54,774
Staff — Schedule 1	1,183,780	985,122
Other manpower — Schedule 2	242,253	282,301
Communications — Schedule 3	154,223	105,565
Other operating expenses — Schedule 4	<u>59,824</u>	<u>52,634</u>
	<u>2,237,113</u>	<u>1,480,396</u>
Operating profit	3,364,744	2,884,724
Operating loss on leasehold improvements held for sale (Note 5)	26,757	
Provision for doubtful accounts (Note 3)		
Specific	1,924,769	1,370,954
General	<u>437,197</u>	<u>1,513,769</u>
Net Profit	<u>\$ 976,021</u>	<u>\$ 1</u>

Note 6. Miscellaneous Assets

From time to time the Company may acquire certain assets of its borrowers whose businesses have failed. During the time these assets are held they are stated collectively at a nominal amount of \$1.

Note 7. Contingent Liabilities

Guarantor of bank loans:

The Company is contingently liable as a guarantor of bank loans aggregating \$2,361,460 at March 31, 1977 (\$2,938,400 at March 31, 1976).

Engineering fees:

The Company is contingently liable for the fees of a professional engineering firm. \$30,029 of fees are in dispute. The Company is currently receiving legal advice on the matter.

Note 8. Commitments

Authorizations to be disbursed at March 31 are as follows:

	<u>1977</u>	<u>1976</u>
Loans	\$12,781,830	\$14,326,605
Guarantees	500,000	379,750
Inventory contracts	30,955	5,653
	<u>\$13,312,785</u>	<u>\$14,712,008</u>

Note 9. Trust Assets and Liabilities

Under the authority of Order in Council 989/71 the Alberta Commercial Corporation, a predecessor organization, administered funds deposited with the Company by the Human Resources Development Authority for the creation of employment opportunities for local people including those of native origin.

The trust funds under administration at March 31, are as follows:

	<u>1977</u>	<u>1976</u>
Advances from Province	\$ 229,970	\$ 229,970
Deduct deficit:		
Deficit balance, beginning of year	149,456	152,415
Add expenses:		
Provision for doubtful accounts	(1,782)	2,737
Legal fees	3,234	499
	<u>150,908</u>	<u>155,651</u>
Deduct earnings	6,971	6,195
Deficit balance, end of year	<u>143,937</u>	<u>149,456</u>
Trust funds due to the Province	<u>\$ 86,033</u>	<u>\$ 80,514</u>
Trust assets consist of:		
Cash and short term deposits	\$ 52,184	\$ 44,644
Loans receivable (deduct allowance for doubtful accounts of Nil - 1977; \$6,953 - 1976)	<u>33,849</u>	<u>35,870</u>
	<u>\$ 86,033</u>	<u>\$ 80,514</u>

Note 10. Pension Plans

Under the authority of Order in Council 372/77 dated April 12, 1977 the management of the Company was made eligible for inclusion under The Public Service Management Pension Act effective January 1, 1977 with provision for retroactive application at the employee's option back to July 1, 1972. The current year's expense includes \$25,668 of cost related to prior service for which retroactive adjustment in these statements was not considered necessary.

Note 11. Interest Expense

Advances from the Province of Alberta in excess of \$50,000,000 are subject to interest charges in accordance with rates established by Treasury Minutes pursuant to Section 40.1(2) of The Financial Administration Act and Treasury Minute 1272.

Note 12. Anti-Inflation Program

Pursuant to an agreement between the Government of the Province of Alberta and the Government of Canada, the Company is subject to guidelines as specified in The Anti-Inflation Act with respect to compensation paid to its employees.

Note 13. Comparative Figures

The 1976 comparative figures have been restated where necessary to conform to 1977 presentation.

ANALYSIS OF LOAN AUTHORIZATIONS BY INDUSTRY SECTORS

AUTHORIZATIONS	YEAR ENDED Mar. 31, 1977		% TO TOTAL		YEAR ENDED MAR. 31, 1976		% TO TOTAL		TOTAL A.O.C. SINCE INCEPTION		% TO TOTAL	
	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$
MANUFACTURING												
Food & Beverage Processing	1	390,000	0.4	2.2	3	332,521	1.4	1.2	19	5,163,565	2.3	6.0
Agricultural Products & Machinery	1	(625,000)	0.4	(3.6)	4	1,444,000	1.9	5.2	17	2,336,560	2.0	2.7
Wood Products & Furniture	8	672,781	3.0	3.8	15	790,600	7.1	2.8	45	3,548,469	5.4	4.1
Metal Fabrication & Machinery	27	1,690,335	10.1	9.6	24	2,324,500	11.4	8.3	96	11,012,730	11.5	12.7
Manufactured Structures & Vehicles	9	688,000	3.4	3.9	8	1,814,000	3.8	6.5	42	5,637,800	5.0	6.5
Textiles & Clothing	5	213,500	1.9	1.2	6	195,770	2.8	0.7	21	728,893	2.5	0.8
Petrochemical & Plastic Products	4	621,000	1.5	3.5	1	276,975	0.5	1.0	18	1,658,345	2.2	1.9
Other Manufactured Products	20	1,412,000	7.5	8.1	10	2,592,725	4.7	9.3	77	8,205,100	9.3	9.5
TOTAL MANUFACTURING	75	5,062,616	28.0	28.9	71	9,771,091	33.6	34.9	335	38,291,462	40.3	44.2
SERVICE												
Tourist & Entertainment	9	1,611,500	3.4	9.2	17	5,354,000	8.1	19.1	49	12,181,557	5.9	14.1
Construction	10	(3,950)	3.7	0	9	570,750	4.3	2.0	22	762,800	2.6	0.9
Transportation	4	290,000	1.5	1.7	3	860,000	1.4	3.1	11	1,319,000	1.3	1.5
Business Services	33	1,785,009	12.3	10.2	31	6,455,473	14.7	23.0	105	10,960,717	12.6	12.6
Personal Services	79	5,636,300	29.5	32.1	44	2,363,900	20.9	8.4	177	11,196,245	21.3	12.9
Other Services	58	3,150,479	21.6	18.0	27	796,875	12.8	2.8	108	5,051,754	13.0	5.8
TOTAL SERVICES	193	12,469,338	72.0	71.1	131	16,400,998	62.1	58.5	472	41,472,073	56.7	47.8
LUMBER INDUSTRY					9	1,850,775	4.3	6.6	25	6,927,275	3.0	8.0
TOTAL AUTHORIZATIONS	268	17,531,954			211	28,022,864			832	86,690,810		

Managing Director
Ed Clarke

**Deputy Managing
Director — Loans**
Roy Parker

**Deputy Managing
Director — Administration**
Brian Parsk, C.A.

Credit Superintendents
Art Hahn Jim Anderson

Comptroller
Jim Gill

Corporate Secretary
Rod Kneller

BRANCH MANAGERS

Grande Prairie
Gordon Taylor

Edmonton
Lyle Nisi

Calgary
Dick Demers

Lethbridge
John Kennedy

**General Manager —
Business Development**
Fred Larson

Ponoka

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